ANALYSIS OF ARLINGTON COUNTY HOMEBUYER PROGRAMS

FEBRUARY 2023

PREPARED FOR THE HOUSING ARLINGTON HOMEOWNERSHIP STUDY

HOUSING ARLINGTON

ARLINGTON VIRGINIA

INTRODUCTION

This document provides an analysis of Arlington County's affordable homeownership programs that are operated directly by the County and those that are provided by third parties through County support. Programs that are available for Arlington residents to utilize but are not necessarily affiliated with the County are also included to provide a broad picture of the resources available in the community to potential homebuyers.

Nearly every instance of the term **'moderate-income'** in this document refers to households at 80% of the Area Median Income (AMI) (see Table 1) as published annually by the U.S. Department of Housing and Urban Development (HUD).[1]

In light of the County Board-adopted Affordable Housing Master Plan (AHMP), the accompanying Implementation Framework, and a decline in homeownership prospects for moderate-income households, there is a clear need for coordinated program development and resource allocation to ensure that targeted populations are equipped with practical strategies for buying homes and can access financial support to do so. While most of the programs cited in this document target moderate-income households, some of the programs referenced here also provide assistance to households at up to 120% of area median income (AMI).

Table 1: 2022 AMI for households at 80%, 100%, and 120% levels

Household Size	80% of Area Median Income (AMI)	100% of Area Median Income (AMI)	120% of Area Median Income (AMI)
1	$79,760	$99,700	$119,640
2	$91,120	$113,900	$136,680
3	$102,480	$128,100	$153,720
4	$113,840	$142,300	$170,760
5	$122,960	$153,700	$184,440
6	$132,080	$165,100	$198,120
7	$141,200	$176,500	$211,800

Existing programs administered and/or funded by Arlington County aim to expand homeownership opportunities to moderate-income buyers, who without this assistance are unable to afford the upfront costs and market-rate prices of for-sale homes in Arlington. The County's educational programs, financial assistance, and financial tools aim to help eligible borrowers build equity, experience greater housing security, and establish roots in the community. These programs include the Moderate-Income Purchase Assistance Program (MIPAP), the Affordable Dwelling Unit (ADU) program, the Virginia Housing Sponsoring Partnerships and Revitalizing Communities (SPARC) program, and homebuyer education programs.

It is important to note that until 2017, the County contracted with AHC, Inc. to manage several of the homeownership programs referenced in this document, including the MIPAP and ADU programs. AHC, Inc. program management included, but was not limited to, determining unit purchaser eligibility, facilitating sales and resales, managing property renovations for resale, and overall portfolio management. In 2017, the County assumed control of the program portfolio, with the exception of managing property renovations for resale. For purposes of evaluating programs in this document, staff has focused on data collected since the County's assumption of these programs.

HOMEOWNERSHIP PROGRAM OBJECTIVES

County programs endeavor to enable homeownership for moderate- and middle-income first-time homebuyers, an objective of the Affordable Housing Master Plan (AHMP).[2] In particular, the County's Moderate-Income Purchase Assistance Program (MIPAP), which provides down payment and closing cost assistance, is consistent with best practices in expanding homeownership opportunities for moderate-income purchasers.

[1] https://www.huduser.gov/portal/datasets/il/il2022/2022summary.odn?states=51.0&data=2022&inputname=METRO47900M47900*5101399999%2BArlington+County&stname=Virginia&statefp=51&year=2022&selection_type=county

[2] Arlington County Affordable Housing Master Plan

The AHMP defines the County's affordable housing policy and addresses homeownership through an objective under the supply goal to "Produce and preserve a sufficient supply of affordable ownership housing to meet future needs," and also under the access goal to "ensure low- and moderate-income individuals and families can access housing." The specific policy supporting homebuyer assistance is as follows:

2.2.5 Provide assistance to create access to ownership housing for moderate- and middle-income first-time homebuyers.

> Homeownership has become more difficult for moderate- and middle-income households, even for those with incomes as high as 120% of AMI. To increase access to homeownership among moderate- and middle-income households, the County can provide information and resources on first-time homebuyer and other moderate-income homeownership programs offered by the County, the State, the private sector and other sources. Nearly all of the moderate-income ownership stock in Arlington is comprised of condominiums. County efforts will focus on educating prospective homebuyers about the unique characteristics of purchasing and owning a condominium unit.

In 2022, County staff completed a review of the AHMP with an updated Implementation Framework. The framework recommends development of a "new overarching and integrative approach to homeownership," which will "serve as a continuum of program delivery intended to educate, guide and assist moderate-income Arlingtonians along the path to sustained homeownership and help the County meet its equity goals."

To establish this integrative approach to homeownership, Arlington County has engaged the community in a Homeownership Study, which will clarify the County's vision, values, and goals related to homeownership, examine the appropriateness of current program outcomes, assess opportunities for potential homebuyers and existing homeowners, and determine whether the County's existing programs support Arlington's homeownership goals.

The following is a review of existing homebuyer assistance programs administered through and by the County, as well as some of the external resources that help new and existing homeowners. This program analysis will describe how the County's existing programs are performing and inform future program recommendations.

REVIEW OF HOMEBUYER PROGRAMS

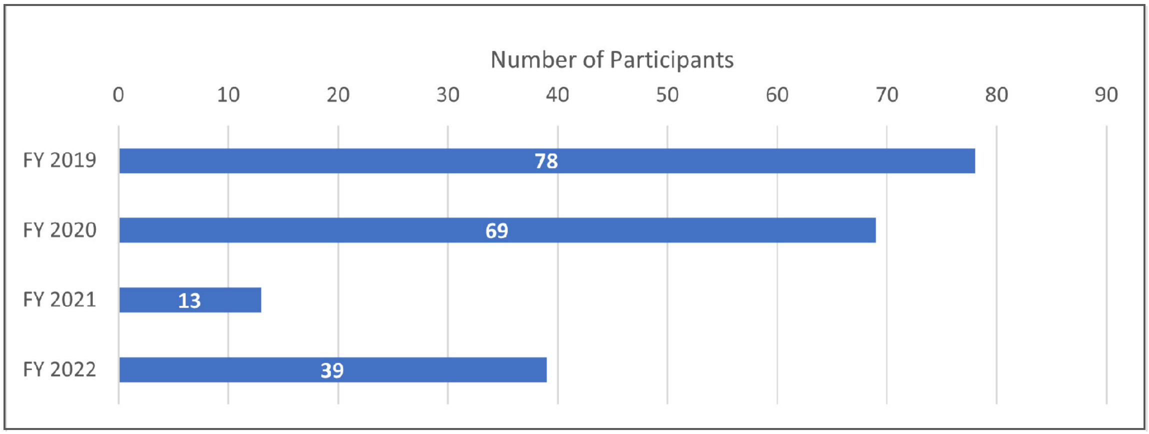
HOMEBUYER EDUCATION

One of the first steps along the road to sustainable homeownership is a well-rounded understanding of fundamental concepts about the homebuying process. Homebuyer education helps prospective buyers to assess their overall readiness to purchase by offering instruction on the process of obtaining a mortgage loan, costs and responsibilities associated with maintaining a home, and basic personal finance. Throughout the education and counseling process, potential homebuyers learn about mortgage terms and criteria, credit, additional monthly expenses (taxes, insurance, etc.), homeowner association (HOA)/condo fees and responsibilities, and ongoing maintenance.

Completion of a HUD-approved homebuyer education course is a basic requirement for most first-time homebuyer programs that utilize public funding, including assistance from Arlington County, Virginia Housing and/or the Federal Housing Administration (FHA). Arlington County provides financial support to the Latino Economic Development Center (LEDC) for their in-person homebuyer education program. In-person courses are offered on a rolling basis in various County locations. Courses are 6 hours in length and offer language and accessibility services upon request. LEDC also invites industry professionals (loan officers, realtors and home inspectors) to provide an instructional walk-through of the homebuyer process.

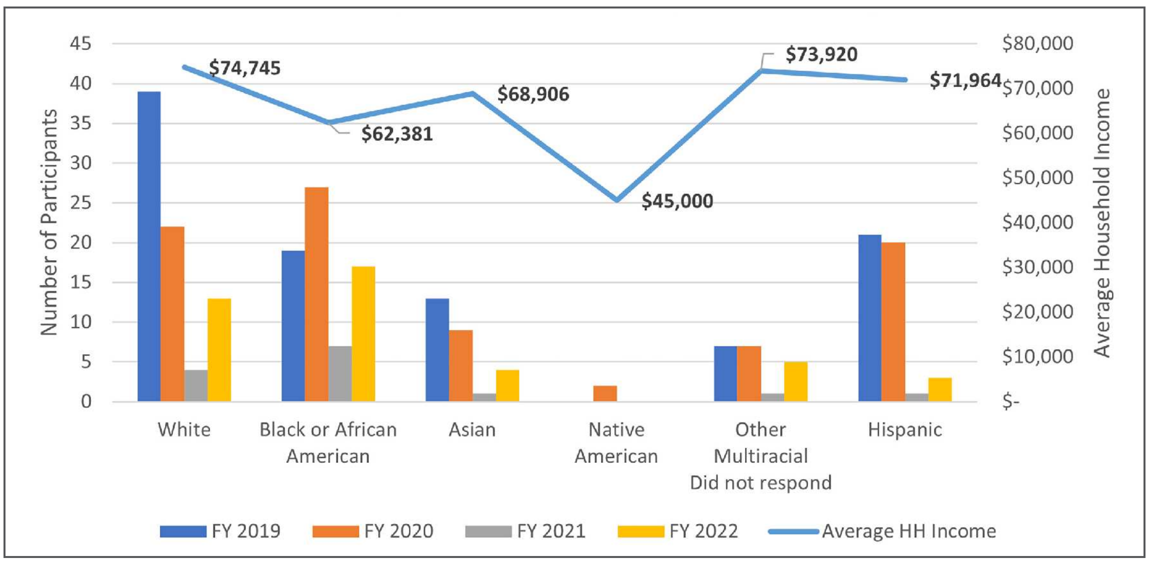
A total of 199 Arlington residents completed LEDC's in-person homebuyer education course between FY 2019 and FY 2022. Course participation was fairly consistent in FY 2019 and FY 2020. The FY 2021 course participation steeply declined, in large part due to the impact of the COVID-19 pandemic. In FY 2022, participation grew slightly, but had not increased to levels seen before COVID-19. The primary reason for lower in-person attendees in FY 2022 is the availability of virtual homebuyer education offerings during the pandemic. One such course is the Virginia Housing web-based course which can be taken at a buyer's convenience. Although the time commitment for the online course is 8 hours, it appears that many potential buyers prefer taking the virtual course on their own schedule and at their own pace.

Chart 1: Homebuyer Education Completion by Fiscal Year



Similar to the range in participation rates among Arlington residents who completed homebuyer education, demographics of participants, including race, ethnicity, and household income have also varied. Pre-pandemic, White households made up the largest share of LEDC homebuyer education participants. Participation in FY 2020 increased only among Black or African American residents; who continued to have the highest completion rates in subsequent years. The average household income of White participants was higher than that of all other racial categories across the four-year period.

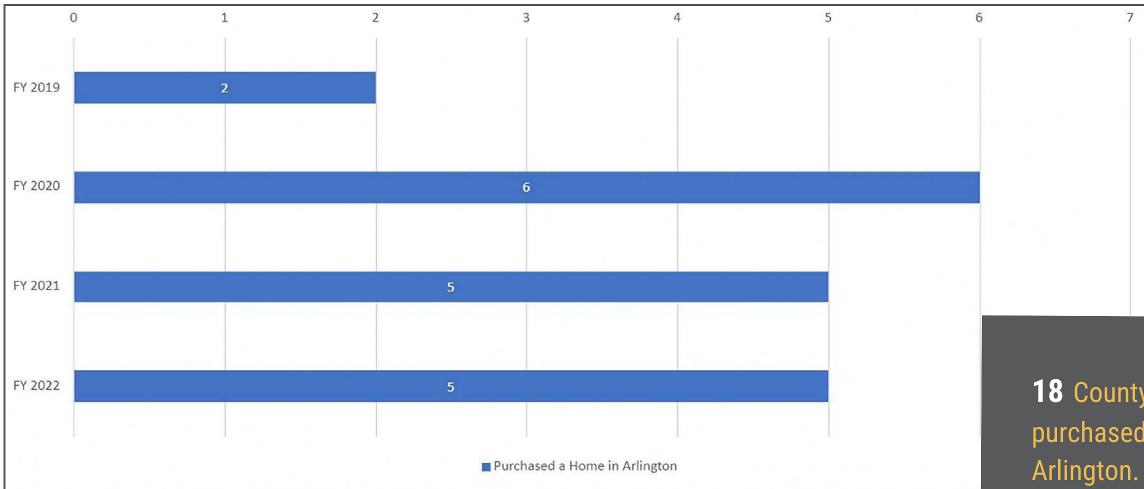
Chart 2: Completed Homebuyer Education Course by Race and Average Income



In addition to homebuyer education, LEDC offers home purchase counseling services. In these one-on-one sessions, LEDC provides specific guidance, tailored to the participant's housing goals and comprised of strategies to improve credit, manage debt and maintain a budget. Because homebuyer education provides information and tools to pursue homeownership at a time most appropriate for one's circumstances, many households decide to delay plans to purchase following program completion in order to strengthen their overall financial standing. As a result, the actual impact of the program may not be reflected in the number of successful home purchases in the 1-2 years that follow; in many cases, homebuyer education takes place years prior to actual home purchase. Other benefits, such as increased financial literacy, reduced debt, and better financial management, although not easy to measure, undoubtably contribute to the participants' future success.

Among the 199 Arlington residents who attended County-sponsored homebuyer education from FY 2019 to FY 2022, 33 participants purchased homes in various locations during this time period, including 18 who purchased in Arlington. Another 31 participants from neighboring jurisdictions also purchased a home in Arlington.

Chart 3: Purchases in Arlington Among County Residents with Homebuyer Education



18 County residents purchased homes in Arlington.

LEDC provides homebuying services similar to those offered in Arlington throughout the region. Among Arlington residents and non-residents, approximately 189 program participants purchased a home from FY 2019 to FY 2022. Of the total purchasers, 26%, or 49 participants, purchased in Arlington. The City of Alexandria had the largest share of purchasers, which totaled 73 (39% of the total purchasers).

Although the average Arlington sales price for program participants decreased by 14% from FY 2019 to FY 2022, the average Arlington sales price is approximately $100,000 above the average sales price for purchases in Alexandria and Fairfax for the time period reflected.

Chart 4: LEDC Program Participants' Purchase Locations, FY 2019 – FY 2022

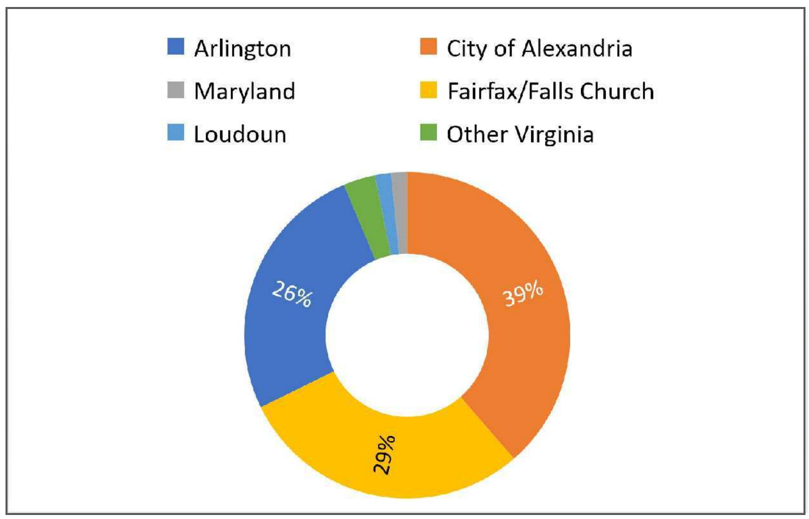
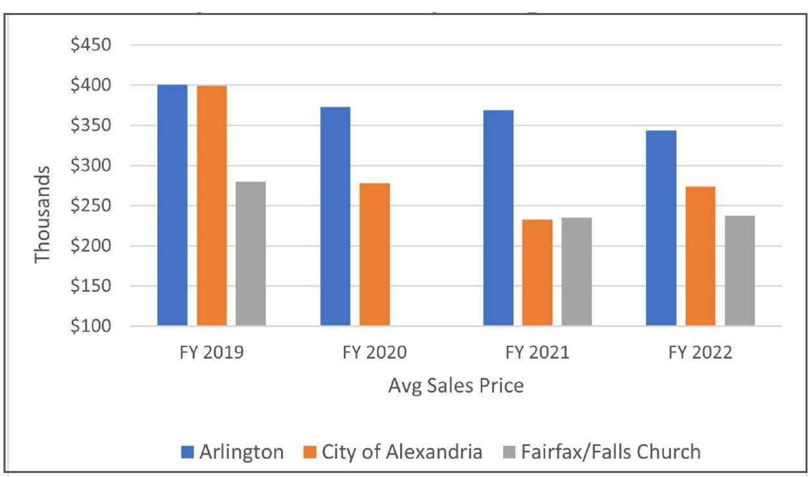


Chart 5: LEDC Program Participants' Purchases by Average Sales Price, FY 2019 – FY 2022



DOWN PAYMENT ASSISTANCE

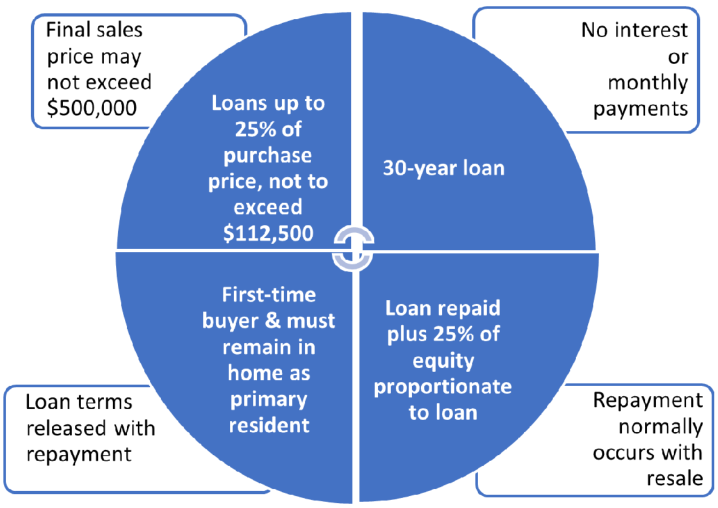
Credit eligible moderate-income homebuyers face significant barriers to sustainable homeownership, a major vehicle for building wealth and economic opportunity. In high-cost rental markets, saving for home purchase can be nearly impossible, leaving families discouraged at the prospect of homeownership. Access to sustainable homeownership is expanded with flexible mortgage underwriting and assistance with down payment and closing costs.

Arlington County's downpayment assistance program is called the Moderate-Income Purchase Assistance Program (MIPAP). This program began in 1981 and has primarily relied on the federal Community Development Block Grant (CDBG) program for funding. Annually, Arlington County allocates between $550,000-$650,000 to MIPAP.

MIPAP loans are used to purchase market-rate/unrestricted ownership units.[3] Loans come in the form of a 30-year second trust. Combined with a 30-year conventional first trust mortgage, MIPAP assists first-time homebuyers at or below 80% of the AMI to purchase housing in the County. MIPAP loans are interest-free and deferred, meaning there are no monthly payments. MIPAP can provide up to 25% of the final purchase price to help prospective buyers afford a home that would otherwise be outside their reach.

The maximum loan amount is $112,500. The maximum sales price is $500,000, which was a standard based on previous Virginia Housing first-time homebuyer programs for moderate-income buyers. In recent years, Virginia Housing has increased income limits and the maximum sales price for such programs to $665,000. The County has continued to use the maximum sales price of $500,000 because MIPAP borrowers who earn 80% of AMI (program income limit determined by HUD) are not typically able to afford homes above $500,000. Borrowers are required to remain primary residents of the home until the loan is repaid (normally upon sale, and in some cases upon refinance).

Figure 1: MIPAP Loan Terms



MIPAP has a shared appreciation model which requires the borrower to pay the County a proportionate share of the net appreciation at the time of loan repayment.[4] The shared appreciation model helps to achieve homebuyer goals by directly supporting private market purchases that may otherwise be unaffordable. This model has also been applied to purchases of Affordable Dwelling Units (ADUs). In both cases the original purchase assistance loan and County's share of the appreciated market value of the property are recycled from homeowner to subsequent homeowner, enabling future affordability.

Table 2: MIPAP Repayment and Shared Appreciation

Calculation of Property Appreciation		**Calculation of Homeowner Equity**	
Resale Price	$380,000	Resale Price	$380,000
Less Original Purchase Price	$(320,000)	Less 1st Trust Mortgage Payoff	$(200,000)
Property Appreciation	$60,000	Less 2nd Trust County MIPAP Payoff	$(80,000)
		Less 5% Closing Costs	$(19,000)
Calculation of Shares		Subtotal	$81,000
Property Appreciation	$60,000		
25% County Share	$15,000	Less 25% County Share of Appreciation	$(15,000)
75% Homeowner Share	$45,000	Homeowner Equity (incl. 75% Homeowner Share)	$66,000
		Total Due to the County (original MIPAP loan plus 25% of appreciation)	$95,000

The example at right illustrates how shared appreciation and homeowner equity amounts may be calculated for a typical MIPAP loan. In this example, the original purchase price is $320,000 and the MIPAP loan is $80,000 (25% of the purchase price). Assuming a resale price of $380,000, 0% interest on the MIPAP loan, and an outstanding balance of $200,000 on the first trust loan at the time of resale, the appreciation and equity amounts are calculated as shown above in Table 2.

MIPAP LOAN VOLUME

There are 127 active loans in the MIPAP portfolio, with an overall average loan amount of $31,155. Forty-two percent of all MIPAP loans are deferred, meaning there are no monthly payments associated with them. Of the 58% of MIPAP loans that are amortizing

[3] MIPAP may also be used to purchase Affordable Dwelling Units (ADUs). ADUs remain subject to ADU affordability restrictions, even if the MIPAP loan is repaid.

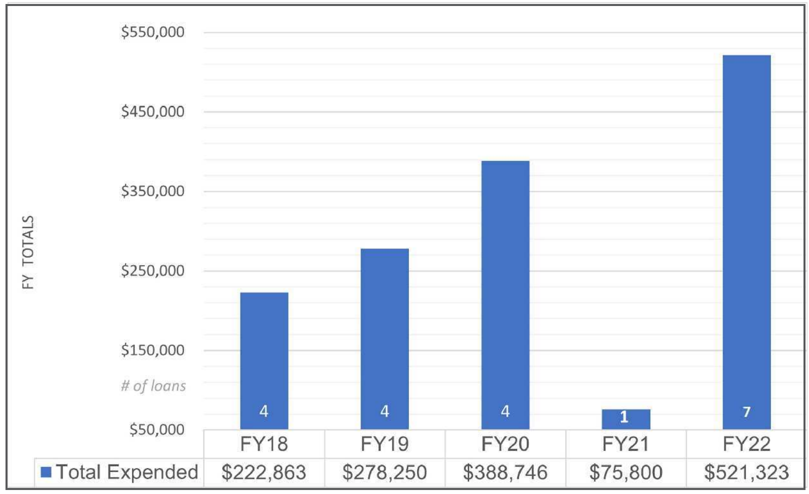
[4] Seller's net appreciation is derived by deducting all transaction costs from the sales price to obtain the net appreciation amount. The County's share of appreciation corresponds to the proportion of the borrower's original MIPAP loan amount to the original sales price.

(have monthly payments), the average payment per loan is $56/month.

Between FY 2018 and FY 2022, the County supported 20 borrowers with downpayment and closing cost assistance through the MIPAP program, totaling over $1.4 million in program expenditures (Chart 6).

The average MIPAP loan amount between FY 2018 and FY 2022 was approximately $73,000. Due to increasing sales prices and fluctuating homebuying trends, there were substantial year-over-year increases in average loan amounts from FY 2018 through FY 2020. In FY 2018, the average loan amount was $55,716, and in FY 2020, the average amount was $97,187 (Chart 7). The County disbursed the lowest number of loans in FY 2021 (July 2020 – June 2021) (Chart 6), primarily due to market conditions during the fiscal year.

Chart 6: Total MIPAP Expenditures by Fiscal Year

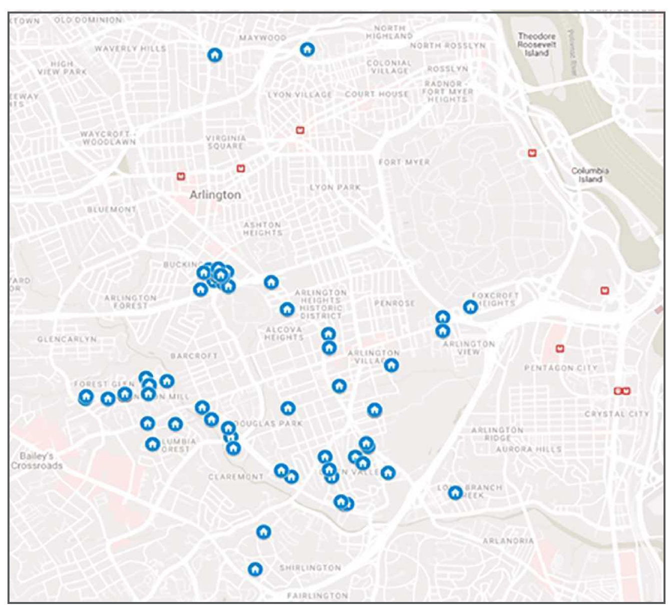


The COVID-19 pandemic, which started in March 2020, created a seismic shift in the for-sale real estate market. Real estate activity among average purchasers was stagnant during the first few months of the pandemic, with sellers and real estate agents having to modify their business practices to address safety concerns. There were no MIPAP loans disbursed between March 2020 and May 2021. MIPAP borrowers, who earn on average $65,000, were also vulnerable to job and housing market uncertainties that resulted from the pandemic. MIPAP applicants and borrowers who purchased in 2021 communicated a desire to purchase sooner, but a reluctance to do so based on several factors, including:

- fear of housing market collapse,
- hope that home prices would reduce further, and
- overall economic unpredictability.

Chart 7: Average MIPAP Loan Amount by Fiscal Year

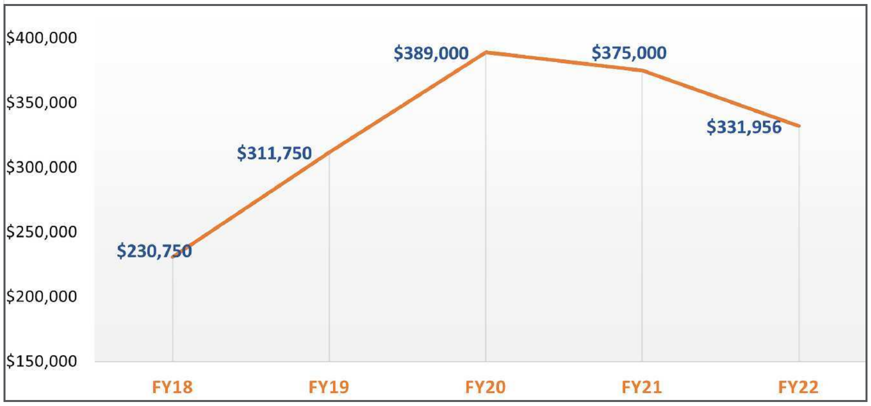
Map 1: Geographic Distribution of MIPAP Loans, FY 2018 – FY 2022



Even if eligible for a conventional mortgage at the time, the prospect of taking on a mortgage, maintenance, and repairs during the pandemic was unsettling for many potential homebuyers. As the pandemic continued, the real estate industry adapted to new precautionary measures in conducting transactions, while buyers and sellers slowly but steadily increased activity. Throughout this period, in efforts to stimulate the economy, the Federal Reserve kept interest rates low, making it less expensive to borrow money. December 2020 saw 30-year fixed mortgage rates reduce to 2.68%, according to Freddie Mac, due largely to the effects of COVID-19. By spring of 2021, prospective MIPAP borrowers began to gain confidence in economic recovery and noted the relatively low interest rates that would have a positive impact on their monthly costs. As an extension of the Federal Reserve's interest rate cuts, the Virginia Housing low-interest-rate program (discussed later in this document) provided MIPAP owners with a unique opportunity to qualify for an even lower mortgage interest rate. The average interest rate for the primary mortgage for MIPAP borrowers between FY 2020 and FY 2022 was 3.2%, reflecting a reduction of more than a full percentage point from previous fiscal years.

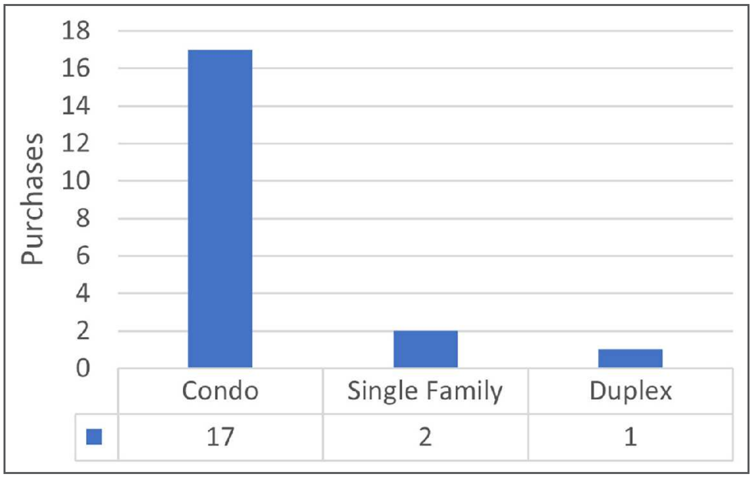
The above noted trends, coupled with the significant financial boost in the form of stimulus payments and a reprieve from student loan repayments, contributed greatly to MIPAP borrower purchase capacity. In addition to an increase in the average loan amount and a decrease in interest rates, the average purchase price for MIPAP borrowers has also steadily increased. In FY 2018, the average purchase price was around $230,000 and by FY 2022, the average purchase price increased to over $330,000.

Chart 8: Average MIPAP Purchase Price by Fiscal Year



Of Note: The FY 2022 average purchase price includes the purchase of five (5) Affordable Dwelling Units (ADUs) – which are price-restricted to remain affordable in perpetuity and therefore lower the average purchase price. The ADU program is discussed later in this document.

Chart 9: MIPAP Purchases by Housing Type, FY 2018 – FY 2022



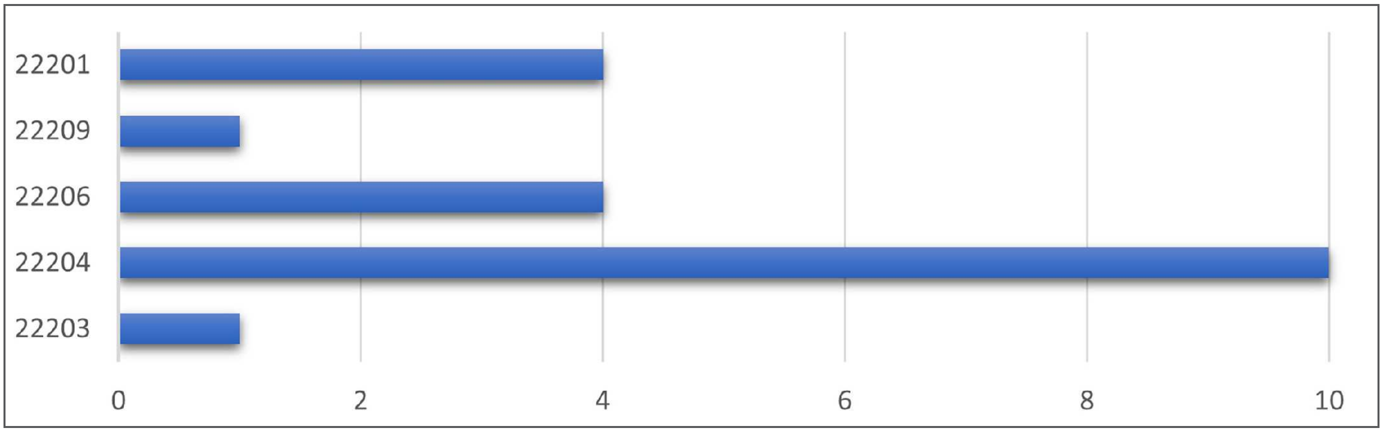
UNITS PURCHASED WITH MIPAP

Condominiums are traditionally more affordable than other housing options in the County.[5] As a result, 85% of MIPAP purchases are for condo units, while single family homes and duplexes make up 15% of the home purchases (Chart 9).

Further, MIPAP loans were primarily used to purchase homes in the 22204 and 22206 zip codes (Chart 10). Among the neighborhoods where purchasers identified affordable units were Alcova Heights, Columbia Heights, and Penrose.

MIPAP buyers most commonly purchase two-bedroom units; followed by one-bedroom units (see Chart 11 on the next page). Of the three 3-bedroom units purchased, two were Affordable Dwelling Units (ADUs) with deed restrictions (see the ADU section of this report for more information); the remaining three-bedroom unit was a market-rate unit.

Chart 10: MIPAP Purchases by Zip Code, FY 2018 – FY 2022



According to the Multiple Listing Service (MLS), in 2021, a total of nineteen 3-bedroom units sold for $500,000 or below. Those 19 units spent a median of 10 days on the market. Further, 26% of those units were purchased through cash transactions. The limited inventory for affordable three-bedroom units presents a challenge to MIPAP borrowers who may not be in the position to submit as competitive of an offer as more financially agile buyers.

[5] Ownership Housing & Barriers to Homeownership in Arlington County

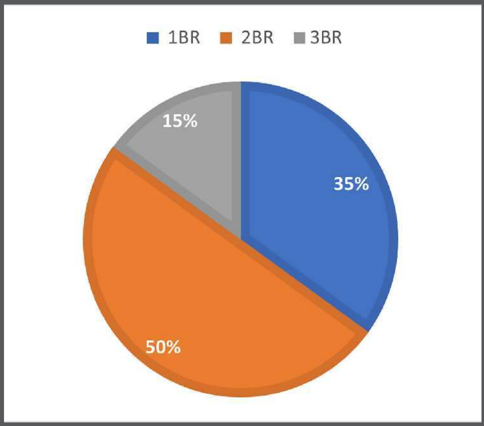
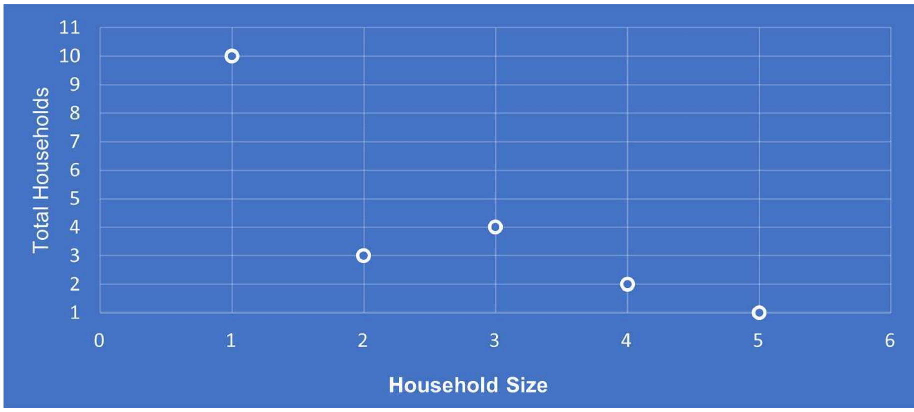


Chart 11: MIPAP Purchases by Number of Bedrooms, FY 2018 – FY 2022

Half of MIPAP borrowers between FY 2018 and FY 2022 were households made up of one person. Households of three accounted for four of the 20 purchasers, followed by households of two (Chart 12). This may suggest the lack of options available to MIPAP borrowers with family-sized households and the hurdles prospective buyers face when searching for affordable units to accommodate growing families. Of the seven households made up of three or more people, three purchased Affordable Dwelling Units (ADUs).

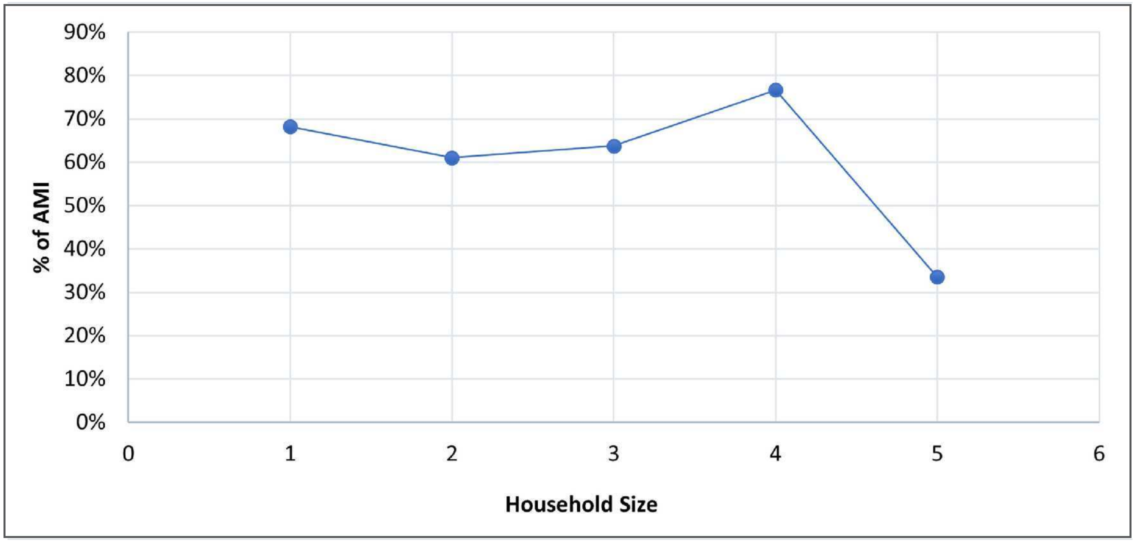
Chart 12: MIPAP Purchasers by Household Size, FY 2018 – FY 2022



BORROWER INCOME

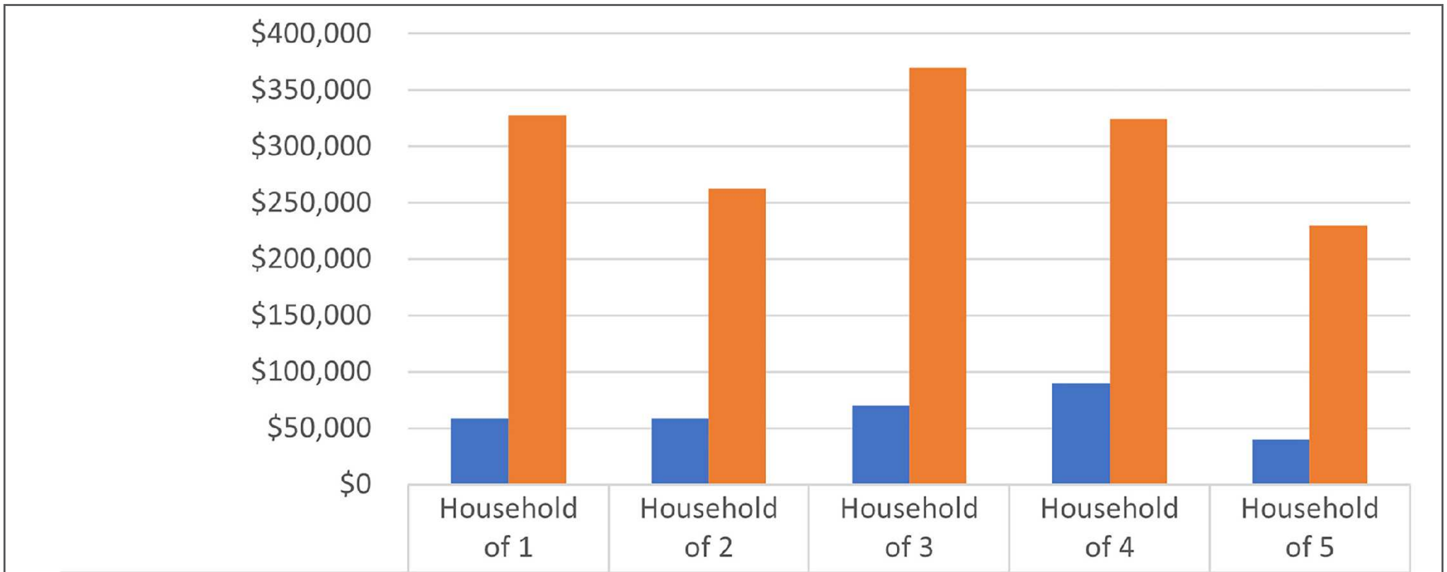
The MIPAP program serves households with incomes up to 80% of the area median income adjusted for household size. The average income for all MIPAP borrowers from FY 2018 to FY 2022 was $62,844. Accounting for AMI limits for each respective year, MIPAP borrowers earn on average 65% of AMI. Four-person households earn on average the highest incomes, with an average income of $89,852, or 77% of AMI for the respective year of application. The only household made up of five people had an income of $40,000, which, at the time of application (FY 2018), was 34% of AMI (Chart 13). Purchasers from FY 2018 to FY 2019 had average incomes of 59% of AMI, while purchasers from FY 2020 to FY 2022 had average incomes of 69% of AMI. Of the small number of family-sized households who earned below-average incomes, transactions involved seller concessions (e.g., the seller paid for a home inspection, document recordation, etc.) or purchases from a landlord who agreed to hold the property until the buyer mortgage qualified.

Chart 13: MIPAP Household Size by Percentage of AMI



Households of one earned an average of $30,000 less than households of four, but they were able to qualify for home purchases within the same price range (see Chart 14 on the next page). This is primarily due to one-person households having less debt and stronger credit than higher earners whose households contain more people.

Chart 14: Average Income and Purchase Price by Household Size

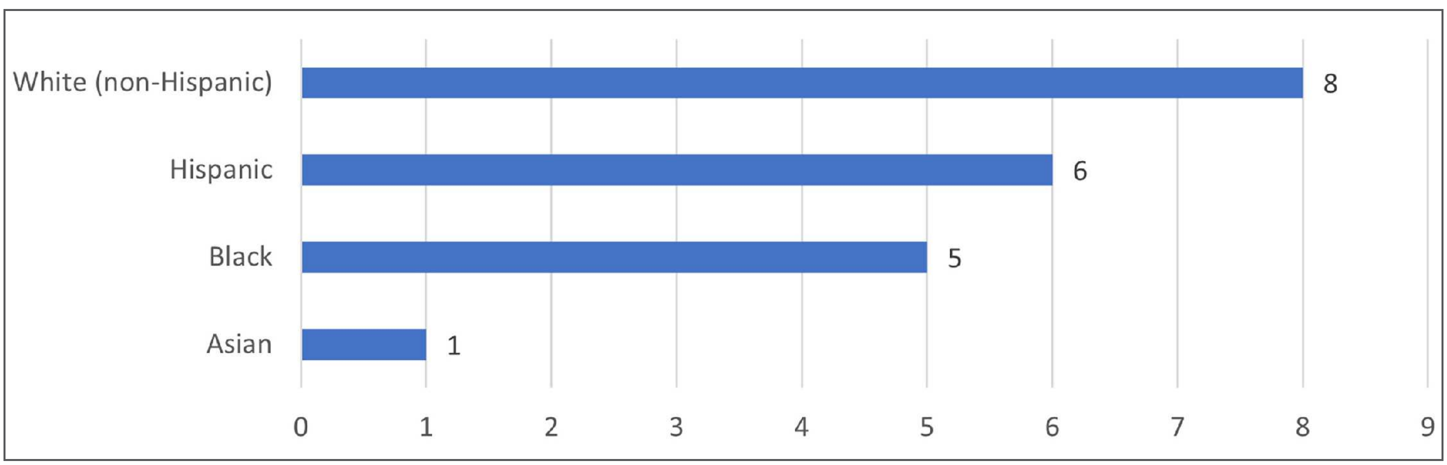


	Household of 1	Household of 2	Household of 3	Household of 4	Household of 5
Average Income	$58,204	$58,236	$70,111	$89,852	$40,000
Average Purchase Price	$327,980	$262,431	$369,650	$324,500	$230,000

MIPAP BORROWER RACE AND ETHNICITY

Forty percent of MIPAP borrowers from FY 2018 through FY 2022 were white (non-Hispanic), while Black and Hispanic households collectively made up a little more than half of MIPAP purchasers.

Chart 15: MIPAP Borrowers by Race and Ethnicity, FY 2018 – FY 2022

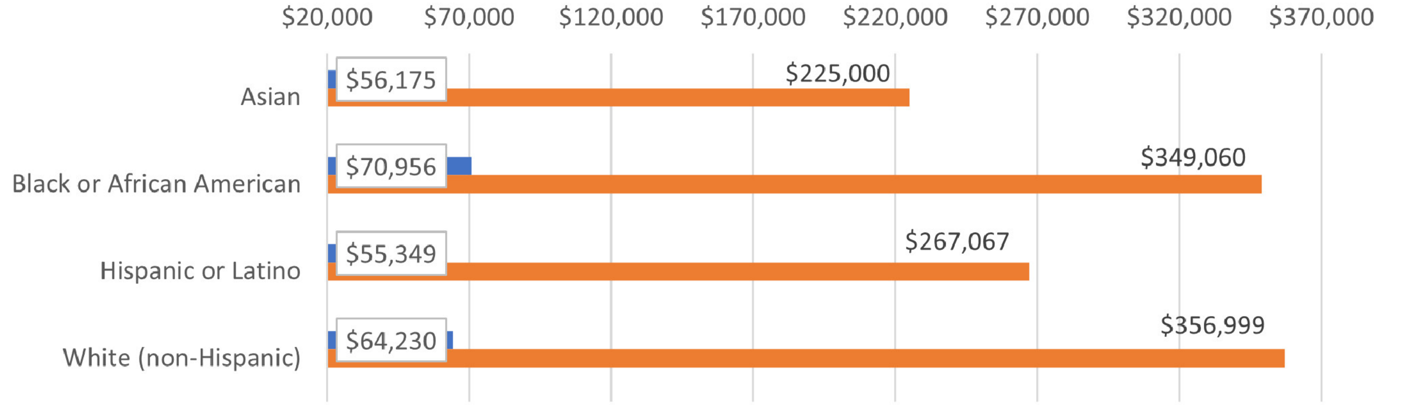


Five of the 20 MIPAP borrowers between FY 2018 and FY 2022 were Black or African American. These households have on average the highest annual income of $70,956. Although the highest earners, Black households purchased the second highest average-priced home, at $332,260. White (non-Hispanic) households earned about 10% less than Black households but purchased homes priced 10% more than those purchased by Black households. One of the primary reasons for the difference in purchase power may be the time of purchase. Eighty-eight percent of purchases by white (non-Hispanic) borrowers occurred in or after FY 2020, while Black household purchases have occurred in every fiscal year with the exception of FY 2021, where the only sale was for a white (non-Hispanic) purchaser.

The concentration of purchases among white (non-Hispanic) borrowers aligned in large part with the Covid-19 economic recovery, which was accompanied by relatively low interest rates, enabling banks to lend more and buyers to afford higher mortgages. Additionally, smaller sized households with younger buyers account for a larger share of applicants and buyers in the past two fiscal years. These prospective buyers tend to have less debt and are more willing to purchase smaller units – which are more readily available to low/moderate-income purchasers – than larger, older households.

Hispanic or Latino borrowers had the lowest incomes, with average annual earnings of $55,349 or 55% of AMI for the respective year of application. The majority (83%) of Hispanic or Latino MIPAP borrowers purchased homes in FY 2018 and FY 2019, with an average sales price of $258,800. Of the remaining 17% of Hispanic or Latino buyers who purchased after 2019, the average sales price was $341,700.

Chart 16: Average Borrower Income and MIPAP Purchase Price by Race and Ethnicity, FY 2018 – FY 2022



	White (non-Hispanic)	Hispanic or Latino	Black or African American	Asian
Avg Income	$64,230	$55,349	$70,956	$56,175
Avg Purchase Price	$356,999	$267,067	$349,060	$225,000
Avg AMI	69%	55%	70%	73%

OTHER MIPAP BORROWER DEMOGRAPHICS

The overall average age of MIPAP borrowers between FY 2018 and FY 2022 was 36. In FY 2019 all borrowers were above age 43, but the average age for the remaining fiscal years fell below 40.

Chart 17: Overall Age Range of MIPAP Borrowers

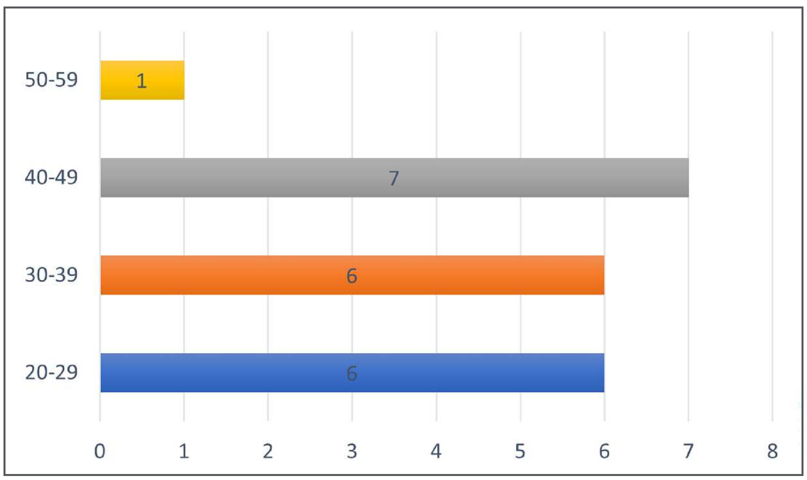
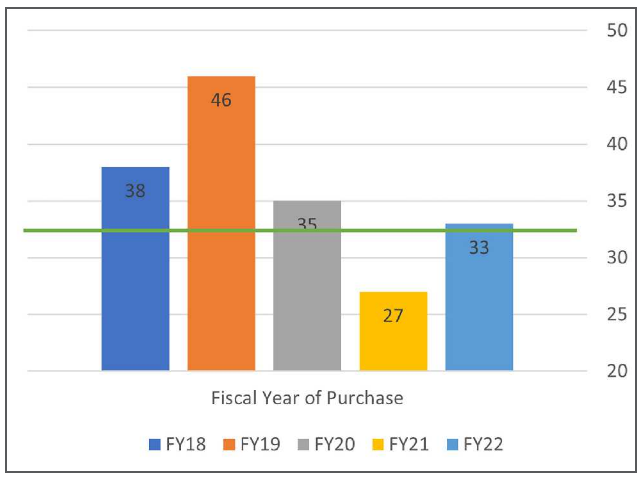


Chart 18: Average MIPAP Borrower Age by Fiscal Year of Purchase

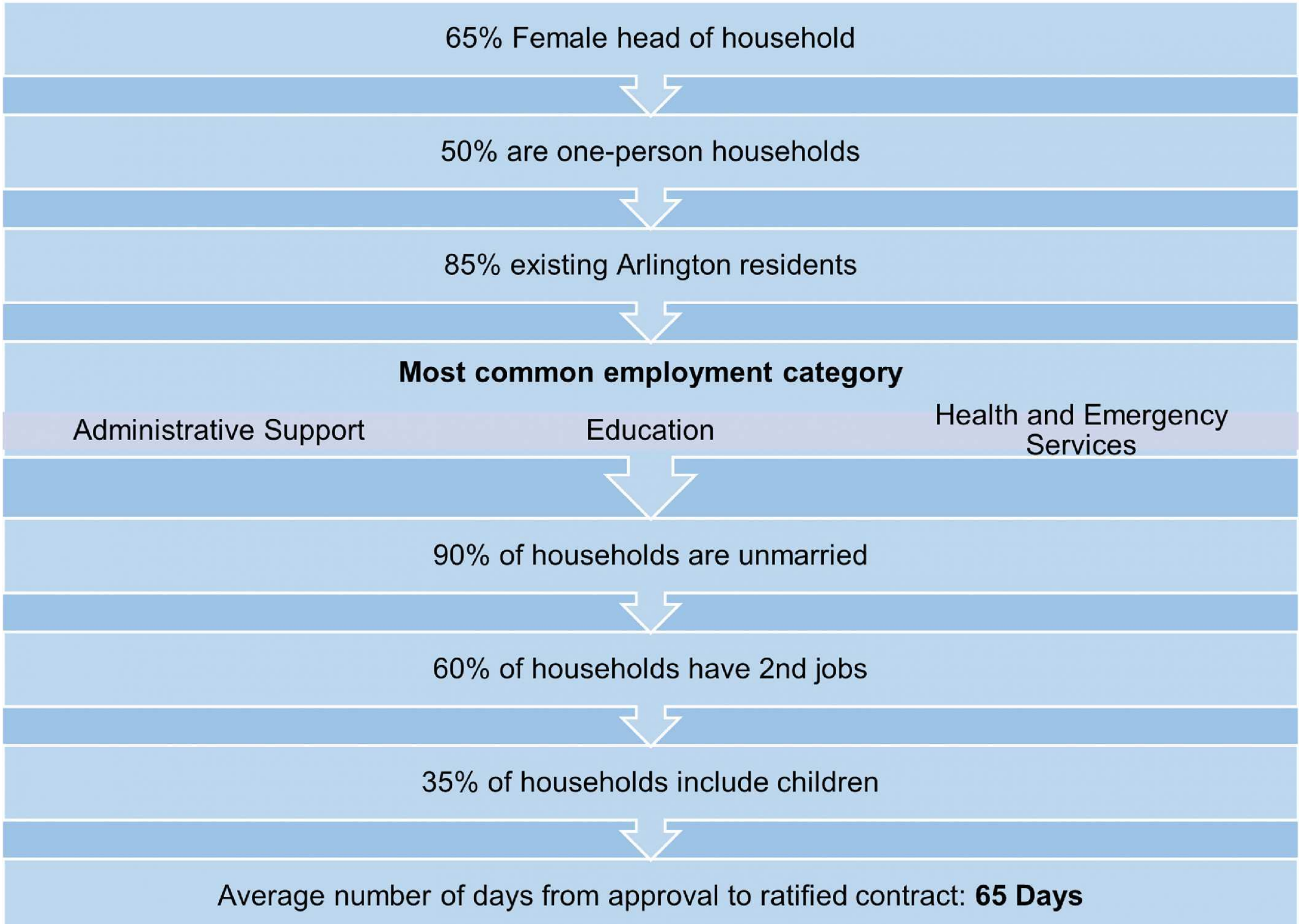


Of the last 10 loans disbursed (FY 2020 – FY 2022), seven borrowers were one-person households. Of those buyers, five were below age 30. This age group represents a growing demographic of MIPAP applicants who purchase.

The age of MIPAP borrowers between FY 2018 and FY 2022 has been relatively evenly split among borrowers in their 20s, 30s, and 40s, with only one borrower in their 50s and no borrowers 60 years of age or older.

Illustration 2 on the next page shows additional demographics of MIPAP borrowers.

Figure 2: Additional Demographics of MIPAP Borrowers

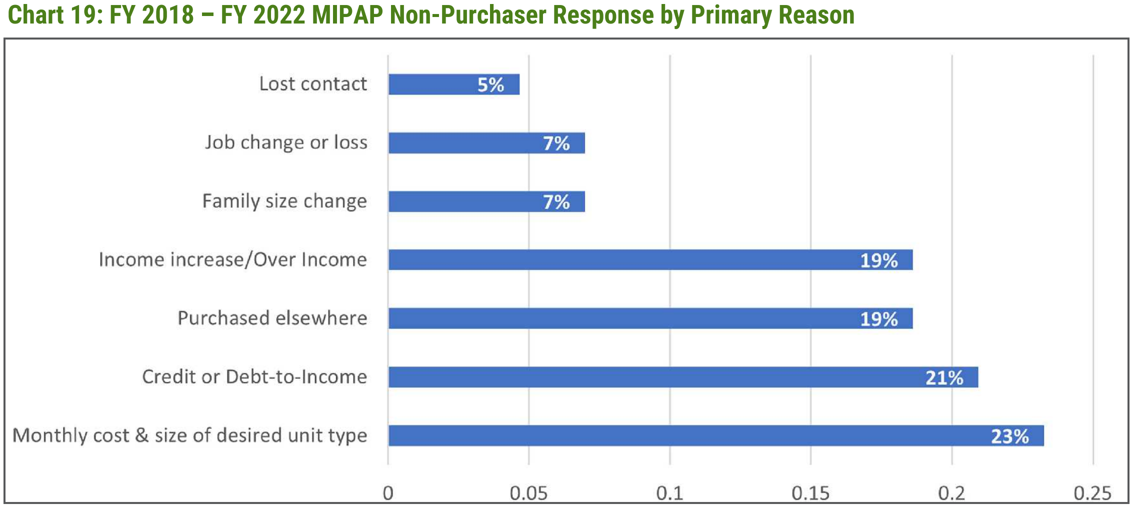


WITHDRAWN MIPAP APPLICATIONS

The Housing Division conducts follow-up inquiries with households who withdraw a complete or partial MIPAP application. From FY 2018 to FY 2022, 43 prior applicants participated in telephone inquiries about the decision to withdraw applications and the status of their homeownership goals. The feedback noted below came from unduplicated applicant responses and is informed by each applicant's housing options and communication with lender(s), realtor(s), homebuyer education staff, and Arlington County staff. Responder feedback takes into consideration the approval of the maximum allowable MIPAP loan.

When asked the primary reason for application withdrawal, 23% of respondents conveyed that they hoped to afford a larger unit, to include more or larger bedrooms and/or additional square footage. Those responders were surprised to learn the monthly costs associated with the units they wanted to purchase. Among this segment of responders, the average household size is two persons.

Chart 19: FY 2018 – FY 2022 MIPAP Non-Purchaser Response by Primary Reason



MIPAP applicants whose debt-to-income (DTI) ratios made homeownership unaffordable accounted for 21% of all responders. Of those responders, the average household size is three persons. Nineteen percent of responders purchased elsewhere, both in the region and out of state. Nineteen percent of responders were over income or had their income increase after application submission.

AFFORDABLE DWELLING UNIT (ADU) PROGRAM

The County's ADU program provides affordable, newly constructed and resale properties for income-eligible homebuyers. ADUs are created through developer contributions in exchange for additional density in projects approved via special exception by the County Board (see Section 15.5.9 of the Arlington County Zoning Ordinance) or through the provisions of the Columbia Pike Neighborhoods Form Based Code. Until 2017, the County contracted with AHC, Inc. to manage ADU program operations. This included, but was not limited to, determining purchaser eligibility, facilitation of sales and resales, managing property renovations for resale, and ensuring overall ADU portfolio viability.

In 2017, the County assumed control of the ADU portfolio and the aforementioned program responsibilities. Currently, 59 homes are included in the County's ADU portfolio. Twelve ADUs are affordable to households earning up to 60% of AMI, the remaining 47 units are affordable to households earning up to 80% of AMI (see Table 1 on page 1).

New construction ADUs are required to be comparable in infrastructure, construction quality, and exterior design to market-rate units within the project. New construction ADU sales prices take into account a buyer's ability to pay 33% of the benchmark income toward housing costs, including fees and taxes. Property values and annual tax assessments align with changes to AMI. Resale prices are determined by multiplying the initial purchase price by annual percentage increases to AMI in the years between sale and resale.

Map 2: Geographic Distribution of ADUs, June 2022

ADU PURCHASER CRITERIA

In addition to income qualifications, purchasers must meet the following qualifications:

- Be a first-time homebuyer or homebuyer who has not owned or had interest in real property for the three-year period leading up to ADU purchase,
- Have income at or below 80% of the Area Median Income (AMI),
- Have pre-approval for a conventional first trust loan (MIPAP second trust loans may be used along with the first trust to purchase an ADU),
- Have completed an approved First-Time Homebuyer Course,
- Have a credit score of 660 and above, and
- Make a down payment of at least 1% of the purchase price. (Lenders may have additional criteria, which may include having cash reserves, often referred to as emergency funds.)

ADUs are homeownership units which carry restrictive covenants to ensure long-term affordability. The covenants are included in the deed of trust and require the initial owner and all subsequent parties that receive title to the property to adhere to the resale guidelines.

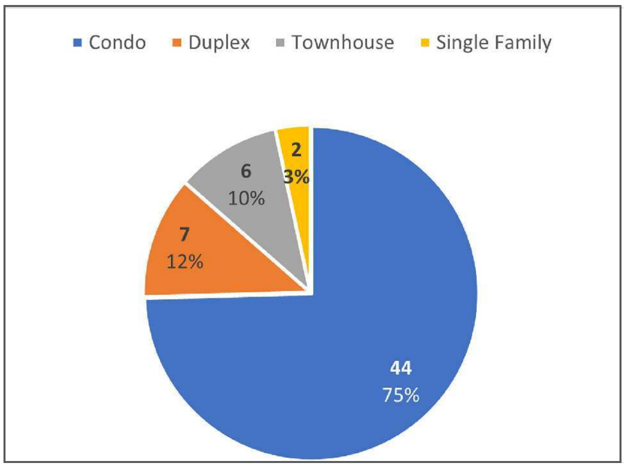
Figure 3: ADU Terms

Restriction Period Enforced through covenants that are attached to the property deed.	• Covenants enforced in perpetuity
Restrictive Covenants Help to safeguard the long-term affordability of an ADU by limiting subsequent sales of the home to income-eligible borrowers at an affordable price.	• Primary residency requirement • Resale to income-eligible households only
Appreciation Buyers retain some, but not all, of the benefits of home sale appreciation, thereby preserving ongoing affordability for subsequent buyers.	• Property values align with increases to HUD AMI limits

ADU covenants are recorded in the Clerk's Office of the Circuit Court of Arlington County. Upon resale, units must be resold to households who meet income criteria. Unit values align with the HUD AMI annual percentage increase.[6] Therefore, to determine the value of an ADU, the buyer's initial affordable price is increased over the time of ADU occupancy by the compounded annual percentage change to AMI.

ADU PORTFOLIO UNIT CHARACTERISTICS

Chart 20: ADU Portfolio by Unit Type



Duplexes and single-family homes make up the oldest ADU inventory, with average unit ages of 78 and 72 years, respectively.

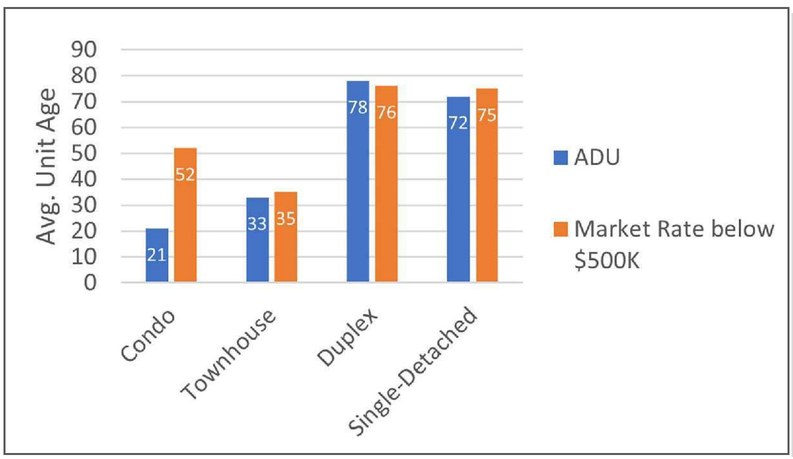
Townhomes, duplexes, and single-detached homes in the portfolio have average age ranges similar to average market-rate townhomes below $500,000 in the County.

Condos within the portfolio are on average more than 30 years newer than the average market-rate condo below $500,000.

Of the total ADU portfolio (59 units), 71% (42 units) were added to the portfolio from 2005 to 2017. The remaining 17 units were added after 2017. All units added to the portfolio after 2017 were condos.

The ADU portfolio consists largely of condos, which represent **75%** of all units.

Chart 21: Average Age of ADUs by Unit Type



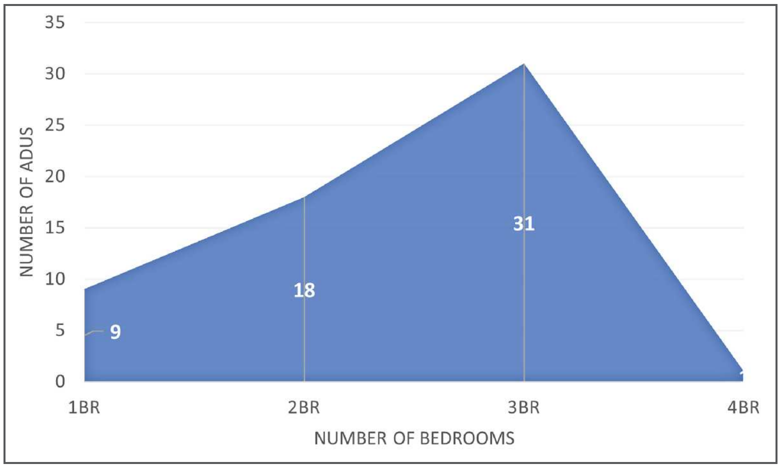
6 Decreased and/or unchanged AMI limits result in no change to ADU values.

ADUs are primarily two- and three-bedroom units, with 31 three-bedroom units accounting for 53% of the ADU inventory. Although three-bedroom units make up the largest segment of the portfolio, three-bedroom market-rate units make up the smallest percentage of MIPAP purchases. MIPAP borrowers can rarely compete with buyers of larger market-rate units, often because of the debt-to-income ratio of MIPAP borrowers at 80% AMI.

RESALES

ADU resales are infrequent. From FY 2005 to FY 2022, 11 ADU resales occurred, seven of which were condos. Three of the 11 resales took place between FY 2017 and FY 2022. Among the three sales, the average appreciation was $72,788.

Chart 22: ADU Portfolio by Number of Bedrooms



HOUSEHOLD DEMOGRAPHICS OF ADU OWNERS

Black households account for 48% of all ADU owners. Black households also own both of the ADU portfolio's single-family homes. Asian and Hispanic households make up 37% of the portfolio, while white non-Hispanic households account for 15% of ADU owners.

Chart 23: ADU Owners by Race and Ethnicity

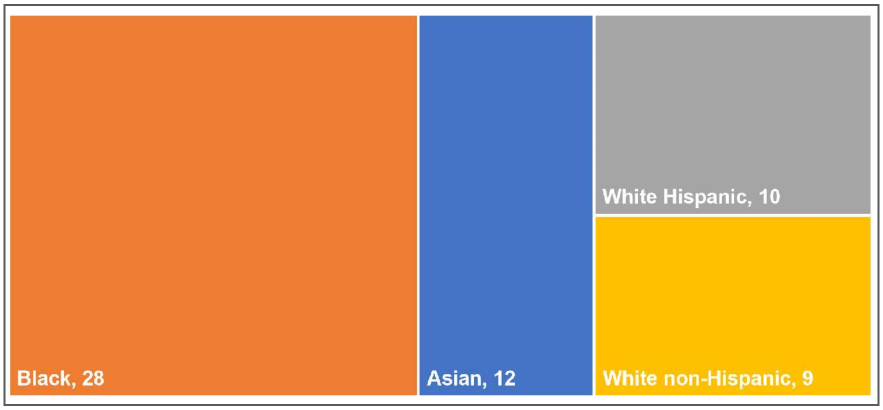
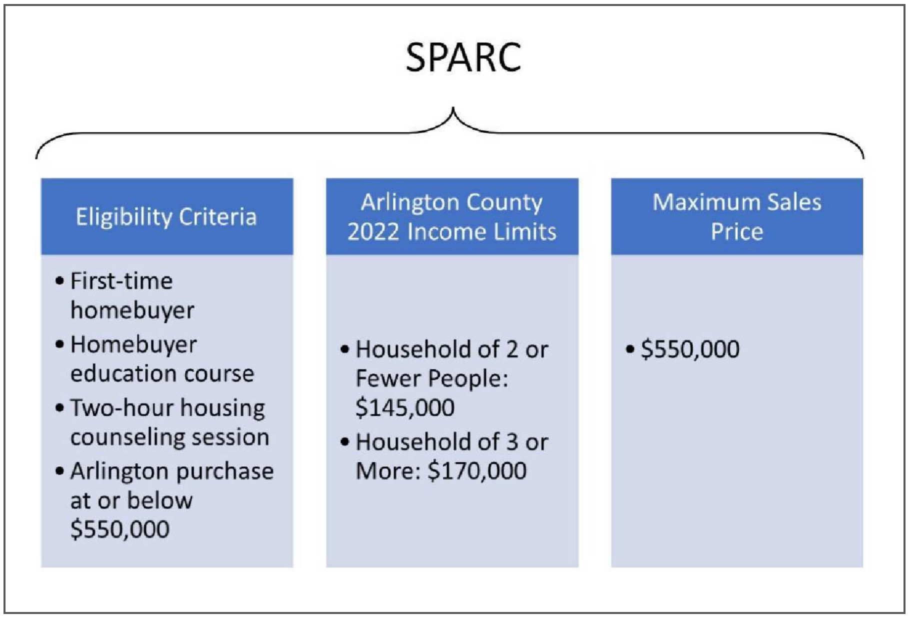


Figure 4: SPARC Requirements, Arlington County, 2022

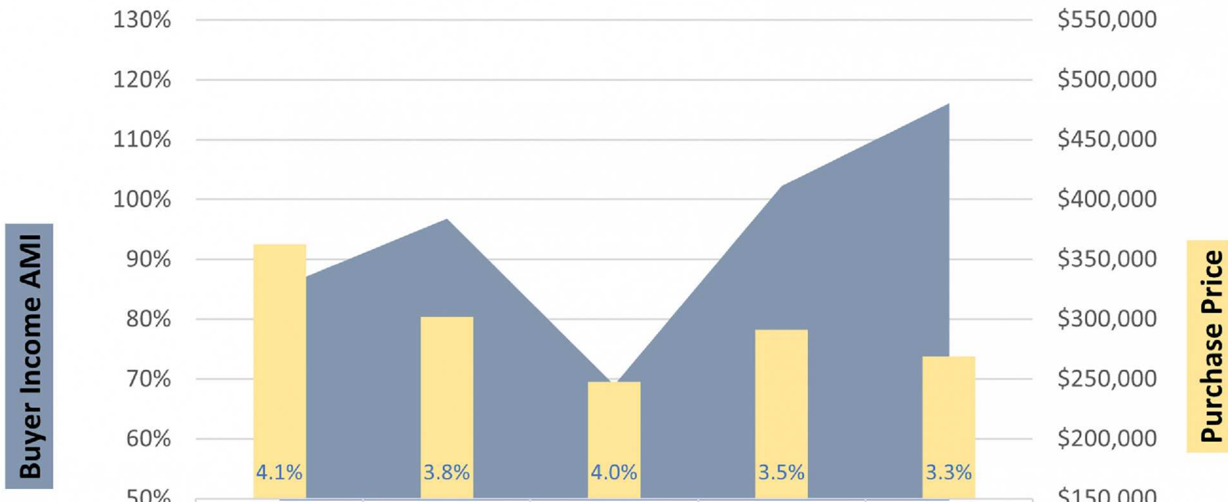


VIRGINIA HOUSING SPARC

Through its Sponsoring Partnerships and Revitalizing Communities (SPARC) Program, Virginia Housing (VH) targets resources to support local efforts to increase first-time homeownership opportunities. SPARC lowers the interest rate on Virginia Housing mortgage loans by one percentage point (from Virginia Housing's published first-time homebuyer rate). Arlington County's SPARC program targets first-time buyers earning [up to] approximately 120% of AMI. From FY 2020 to FY 2022, 57 Arlington homebuyers were approved for Virginia Housing SPARC loans.

The charts on the following pages, which display SPARC outcomes for FY 2020 through FY 2022, show the number of SPARC loans per fiscal year by race (denoted by the total number of SPARC loans within each race category). Also shown are the average household income (as a percentage of AMI) in each racial category, along with the average interest rate and purchase price by race.

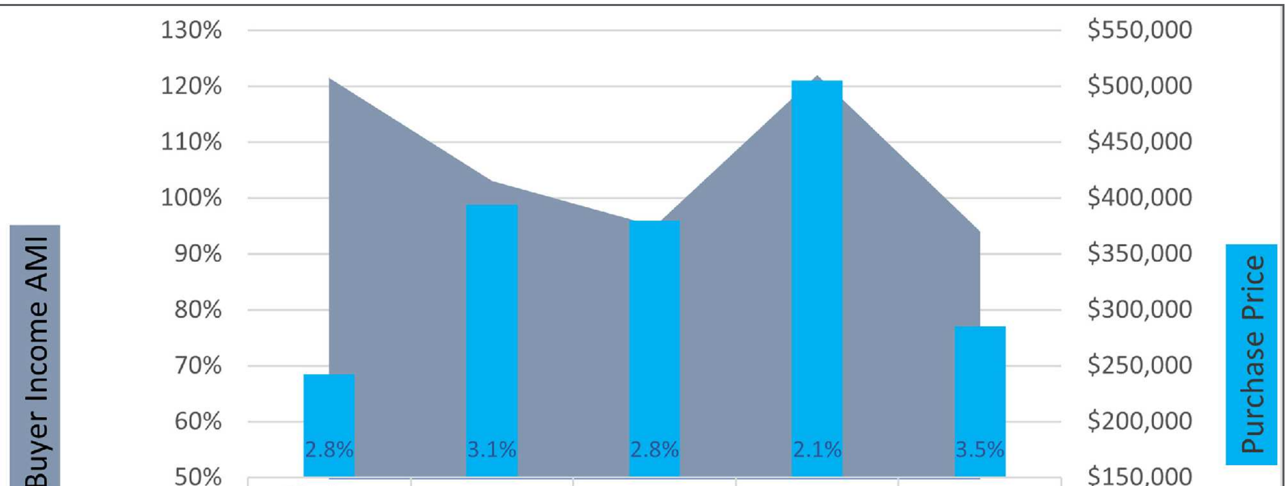
Chart 24: SPARC Outcomes, FY 2020



	Black or African American (3)	White (not Hispanic) (6)	Hispanic or Latino (4)	Asian (4)	Multi-racial (1)
FY20 Avg Income (% of AMI)	85%	97%	69%	102%	116%
FY20 Avg Rate	4.1%	3.8%	4.0%	3.5%	3.3%
FY20 Avg Purchase Price	$362,530	$302,038	$247,376	$291,553	$269,025

- In FY 2020, three Black purchasers used SPARC to buy homes slightly more expensive than those of other SPARC buyers. Of these three purchasers, one was a MIPAP borrower who purchased a three-bedroom single-detached home.
- Four Hispanic or Latino buyers in FY 2020, earning an average of 69% of AMI, purchased homes averaging $247,376. The average Hispanic or Latino household size was three. Among the four SPARC purchases by Hispanic or Latino buyers in FY 2020, two were MIPAP borrowers with household sizes of two and four. One of the two purchases was a two-bedroom duplex.
- Combined with MIPAP, SPARC assisted Hispanic or Latino buyers who earned well below the traditional moderate-income levels to achieve homeownership at relatively low purchase prices in FY 2020.
- The average household size of all FY 2020 SPARC buyers was two people.
- FY 2020 SPARC households account for the largest number of children for SPARC participants from FY 2020 to FY 2022, with nine children represented in FY 2020

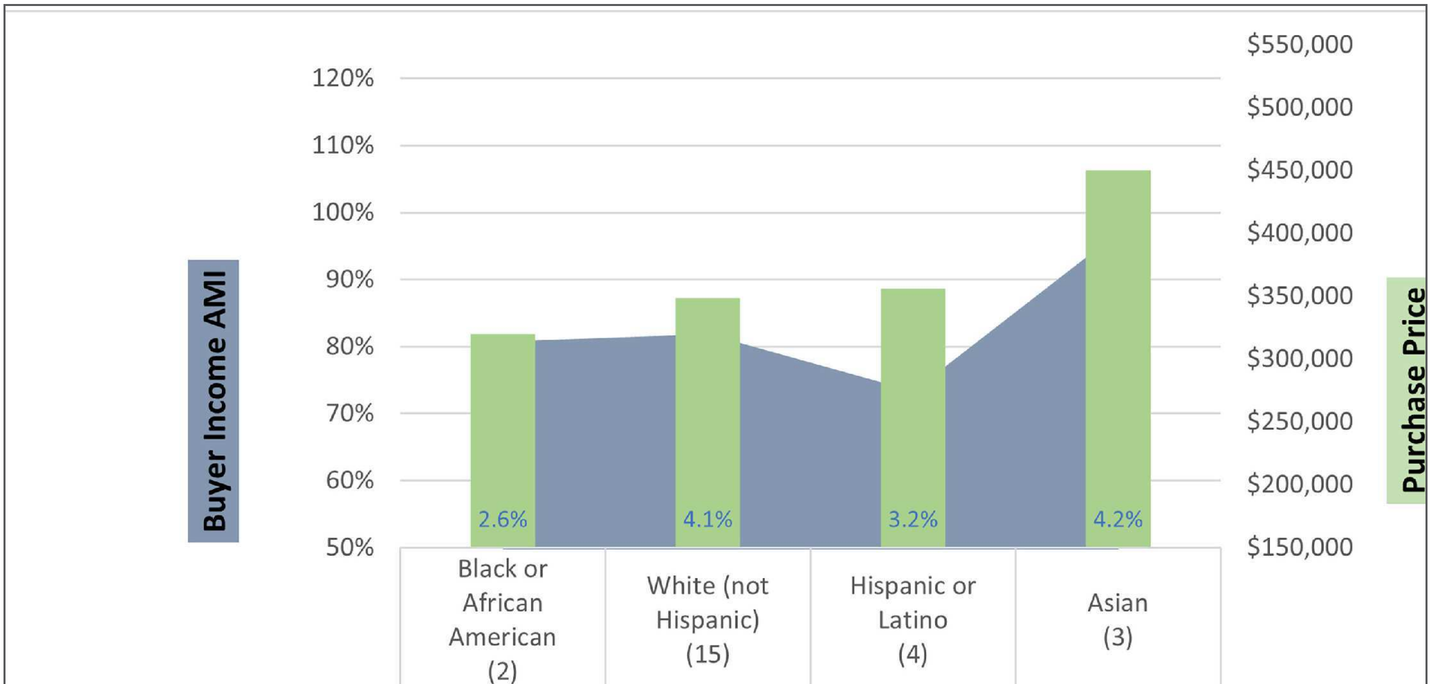
Chart 25: SPARC Outcomes, FY 2021



	Black or African American (2)	White (not Hispanic) (9)	Hispanic or Latino (2)	Asian (1)	Multi-racial (1)
FY21 Avg Income (% of AMI)	121%	103%	95%	122%	94%
FY21 Avg Rate	2.8%	3.1%	2.8%	2.1%	3.5%
FY21 Avg Purchase Price	$242,500	$394,444	$379,950	$505,000	$285,000

- Of the 15 SPARC borrowers in FY 2021, 60% were white (non Hispanic), and most had earnings just above 100% of AMI. Among the white (not Hispanic) buyers, 33% were households of two or more.
- The two Black or African American FY 2021 SPARC purchasers had average incomes just above 120% of AMI and purchased homes at the lowest price points compared to other SPARC FY 2021 purchasers. Both purchasers were households of one.
- The average household size for all FY 2021 SPARC purchasers was 1.3 people.

Chart 26: SPARC Outcomes, FY 2022



	Black or African American (2)	White (not Hispanic) (15)	Hispanic or Latino (4)	Asian (3)
FY22 Avg Income (% of AMI)	81%	82%	73%	97%
FY22 Avg Rate	2.6%	4.1%	3.2%	4.2%
FY22 Avg Purchase Price	$320,000	$348,593	$356,125	$450,333

- All but one of FY 2022 SPARC purchasers were households of one.
- Asian purchasers accounted for 12% of FY 2022 SPARC purchasers and purchased homes above the average purchase price of other buyers in the same fiscal year. Additionally, Asian purchasers accounted for the highest-income earners among all buyers from FY 2020 to FY 2022.

PROGRAM REAL ESTATE TAX RELIEF (RETR)

Arlington County provides an exemption and/or deferral of real estate taxes for qualified homeowners ages 65 and older and for certain totally and permanently disabled homeowners who have title to a property and meet income, asset, and other eligibility requirements.

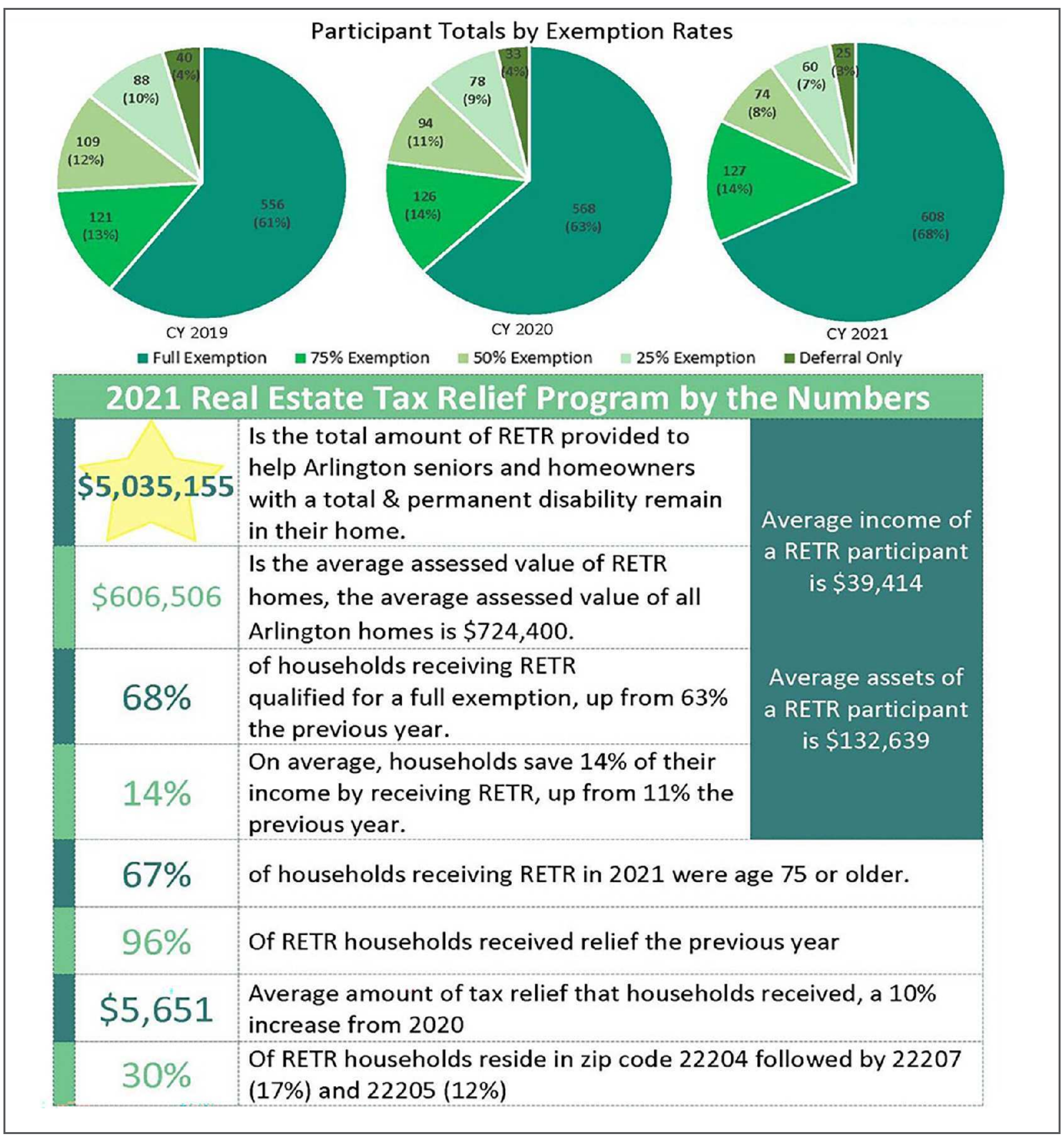
As per Table 3 on the next page, the maximum incomes for tax exemption or deferral are $88,094 and $109,536, respectively. Further, household assets may not exceed $433,935.01 and $585,880, respectively. The exemption percentage is based on household income.

Table 3: RETR Income and Asset Criteria

RETR Income and Asset Criteria		
Exemption Type	**Income Level**	**Asset Level** (home value excluded)
Full	0 – $49,552	0 -$433,935
75%	$49,552.01 – $60,565	0 -$433,935
50%	$60,565.01 – $71,575	0 -$433,935
25%	$71,575.01- $88,094	0 -$433,935
Deferral	$88,094.01 – $109,536	0 – $433,935
Deferral	0 – $109,536	$433,935.01 – $585,880

Below is a snapshot of RETR program metrics for 2019 through 2021.

Figure 5: RETR Program Metrics, 2019 – 2021



LIVE WHERE YOU WORK (LWYW)

Arlington County Government employees may be eligible for a grant toward the purchase of a residence in Arlington County. The Live Where You Work (LWYW) grant does not require repayment if residency and employment tenure requirements are met.

Grant recipients must be employed in a permanent, benefits-eligible position for at least one year. Other eligibility requirements include:

- Employees working 30 hours or more per week.
- The maximum home purchase price is $900,000.
- To be fully vested, participants must meet the employment service requirement for five years. (Reimbursement of the grant is required if service ends prior to full vesting.)
- While there is no income limit, grant amounts are based on household income and size.

Table 4: LWYW Income Criteria and Grant Amount by Household Size and Income, FY 2022

FY 2022 Live Where You Work (LWYW) Income Criteria Grant Amount by Household Size and Household Income				
Grant Amount	**1-Person**	**2-Person**	**3-Person**	**4-Person**
$25,000	$79,760 or less	$91,120 or less	$102,480 or less	$113,840 or less
$16,250	$79,761 - $119,639	$91,121 - $136,679	$102,481 - $153,719	$113,841 - $170,759
$7,500	$119,640 or more	$136,680 or more	$153,720 or more	$170,760 or more

FY 2022 LWYW purchasers earned on average $13,000 less than FY 2021 purchasers. Forgivable grants to FY 2022 purchasers were about $9,000 less than those to FY 2021 purchasers, and home prices were about 15% less for FY 2022 purchases. In both fiscal years, employees purchased primarily in the 22204 zip code and had a prior home address within the County.

Table 5: LWYW Statistics, FY 2021 and FY 2022

Live Where You Work (LWYW)	FY21	FY22
Number of Grants	16	8
Average Salary	$87,815	$74,297
Average Grant	$6,900	$16,250
Average Purchase Price	$605,463	$516,238
Most Common Purchase Zip	22204	22204
Most Common Prior Location Zip	22206	22201

OTHER PROGRAMS THAT SUPPORT NEW AND EXISTING HOMEOWNERS

LENDER-SPECIFIC PRODUCTS

Several of the lenders that serve Arlington County residents offer programs for moderate-income families. For example, Arlington Community Federal Credit Union offers down payment assistance for eligible first-time homebuyers and community partners such as law enforcement officers and educators. The Arlington Community FCU assistance provides $4 for every $1 saved. Lenders have access to small grants and down payment options that, while not directly supported by the County, are an essential element to ensuring that moderate-income families have access to affordable homeownership opportunities.

REBUILDING TOGETHER

Rebuilding Together Arlington/Fairfax/Falls Church (Rebuilding Together-AFF) is a 501(c)(3) nonprofit organization that makes critical home repairs at no charge for low-income homeowners and nonprofit organizations. The majority of the repairs are related to health, safety, and accessibility. Rebuilding Together has been a recipient of Arlington County Community Development Block Grant (CDBG) funds for many years, receiving about $70,000 annually.

Between FY 2018 and FY 2022, the organization provided health and safety repairs to a total of 67 households throughout the County. The homeowners supported by Rebuilding Together's program were primarily white or Black/African American, representing 37% and 51% of the total number of households served, respectively. About 11% of the households served were reported as being Hispanic.

Many of the households that Rebuilding Together supports are multi-generational households, whose equity in their home may represent their only means for generational wealth. Nearly three quarters of all households served were either low-income or extremely low-income, which means that the majority of households served by Rebuilding Together's program are making below 50 % of the area median income (AMI).

In addition, most of Rebuilding Together's clients are seniors living on fixed incomes who want to remain in homes they've lived in for decades. In fact, 92% of the households served had at least one member that was 65 or older, and the average age of the head of household was 74 years old. Furthermore, 73% of the households that Rebuilding Together served between FY 2018 and FY 2022 had at least one member with a disability.

Anecdotally, Rebuilding Together has reported that the organization "has found that low-income homeowners' needs for critical repairs and accessibility modifications have grown significantly through the pandemic: more households need assistance with repairs, and many need more extensive and expensive repairs, such as roofing, HVAC systems, and appliances such as refrigerators, water heaters, washers, and dryers. Over the past six months, RT-AFF has experienced a marked increase in applications from homeowners in Arlington." Currently, Rebuilding Together offers one of the only ways in which Arlington's low-income homeowners can make critical repairs to their homes.

CONDOMINIUM EDUCATION SERIES

Over the years, Arlington County has partnered with the City of Alexandria to offer a condominium education series for existing condominium owners. While the series is designed and hosted by Alexandria, the city annually invites Arlington residents to participate. The series features courses that educate homebuyers and homeowners about the structure and governance of condominium communities; the rights and responsibilities of members of condominium owners' and homeowners' associations; legislative changes affecting common interest communities; information that helps community board members with association governance and budgeting; and other critical topics. In FY 2022, the workshops averaged approximately nine Arlington residents per session.

OBSERVATIONS

Given this analysis of Arlington's existing affordable homeownership programs, we can draw several observations to help guide the Housing Arlington Homeownership Study:

- There is not a strong correlation between participation in homebuyer training programs and purchasing a home; there are many hurdles to overcome.
- The average dollar amount of MIPAP loans has increased over time (correlating to higher sales prices).
- Typically, MIPAP borrowers buy smaller one- to two-bedroom condos rather than units with three or more bedrooms. This trend is largely due to the limited supply of three-bedroom units that are affordable to MIPAP borrowers.
- The MIPAP is small, averaging four closings per year. The income limits of the program, combined with rigorous mortgage criteria and costs associated with desired homes, contribute to the difficulty that moderate-income purchasers have in accessing the homeownership units they would like.
- The ADU program is limited by the number of affordable units generated by the special exception site plan process and low turnover in existing ADUs.